

106TH CONGRESS  
2D SESSION

# S. 3087

To amend the Internal Revenue Code of 1986 to simplify the individual income tax by providing an election for eligible individuals to only be subject to a 15 percent tax on wage income with a tax return free filing system, to reduce the burdens of the marriage penalty and alternative minimum tax, and for other purposes.

---

## IN THE SENATE OF THE UNITED STATES

SEPTEMBER 21, 2000

Mr. DORGAN (for himself, Mr. GREGG, and Mr. DURBIN) introduced the following bill; which was read twice and referred to the Committee on Finance

---

## A BILL

To amend the Internal Revenue Code of 1986 to simplify the individual income tax by providing an election for eligible individuals to only be subject to a 15 percent tax on wage income with a tax return free filing system, to reduce the burdens of the marriage penalty and alternative minimum tax, and for other purposes.

1       *Be it enacted by the Senate and House of Representa-*  
2       *tives of the United States of America in Congress assembled,*

3       **SECTION 1. SHORT TITLE; AMENDMENT OF 1986 CODE**

4       (a) SHORT TITLE.—This Act may be cited as the  
5       “Fair and Simple Shortcut Tax Plan”.

1 (b) AMENDMENT OF 1986 CODE.—Except as other-  
 2 wise expressly provided, whenever in this Act an amend-  
 3 ment or repeal is expressed in terms of an amendment  
 4 to, or repeal of, a section or other provision, the reference  
 5 shall be considered to be made to a section or other provi-  
 6 sion of the Internal Revenue Code of 1986.

7 **TITLE I—FAIR AND SIMPLE**  
 8 **SHORTCUT TAX PLAN**

9 **SEC. 101. FAIR AND SIMPLE SHORTCUT TAX PLAN.**

10 (a) IN GENERAL.—Subchapter A of chapter 1 (relat-  
 11 ing to determination of tax liability) is amended by adding  
 12 at the end the following:

13 **“PART VIII—FAIR AND SIMPLE SHORTCUT TAX**  
 14 **PLAN**

“Sec. 60. Tax on individuals electing FASST.  
 “Sec. 60A. Computation of applicable taxable income.  
 “Sec. 60B. Credit against tax.  
 “Sec. 60C. Election.  
 “Sec. 60D. Liability for tax.

15 **“SEC. 60. TAX ON INDIVIDUALS ELECTING FASST.**

16 “(a) TAX IMPOSED.—If an individual who is an eligi-  
 17 ble taxpayer has an election in effect under this part for  
 18 a taxable year, there is hereby imposed a tax equal to 15  
 19 percent of the taxpayer’s applicable taxable income.

20 “(b) COORDINATION WITH OTHER TAXES.—The tax  
 21 imposed by this section shall be in lieu of any other tax  
 22 imposed by this subchapter. The preceding sentence shall

1 not apply to taxes described in section 26(b)(2) other than  
 2 subparagraph (A) thereof.

3 **“SEC. 60A. COMPUTATION OF APPLICABLE TAXABLE IN-**  
 4 **COME.**

5 “(a) IN GENERAL.—For purposes of this part, the  
 6 term ‘applicable taxable income’ means the taxpayer’s ap-  
 7 plicable wage income, minus—

8 “(1) the standard deduction,

9 “(2) the deductions for personal exemptions  
 10 provided in section 151, and

11 “(3) the homeowner expense deduction allow-  
 12 able under subsection (c).

13 “(b) APPLICABLE WAGE INCOME.—For purposes of  
 14 this part—

15 “(1) IN GENERAL.—The term ‘applicable wage  
 16 income’ means, with respect to an individual, wages  
 17 received by such individual for the taxable year for  
 18 services performed as an employee of an employer.

19 “(2) EMPLOYMENT.—The term ‘employment’  
 20 has the meaning given such term in section 3121(b).

21 “(3) WAGES.—The term ‘wages’ has the mean-  
 22 ing given such term in section 3401(a).

23 “(c) HOMEOWNER EXPENSE DEDUCTION AL-  
 24 LOWED.—

1           “(1) IN GENERAL.—For purposes of subsection  
2           (a), there shall be allowed as a deduction for the  
3           taxable year an amount equal to the product of—

4                   “(A) \$5,000, and

5                   “(B) a fraction, the numerator of which is  
6           the number of months in such year in which the  
7           taxpayer owned and used property as the tax-  
8           payer’s principal residence (within the meaning  
9           of section 121) and the denominator of which  
10          is 12.

11          “(2) SPECIAL RULES.—For purposes of this  
12          subsection—

13                  “(A) MARRIED INDIVIDUALS.—In the case  
14          of a married individual, the ownership and use  
15          requirements of paragraph (1) shall be treated  
16          as met for any month if either spouse meets  
17          them.

18                  “(B) DIVORCE; COOPERATIVE HOUSING.—  
19          Rules similar to the rules of paragraphs (3) and  
20          (4) of section 121(d) shall apply.

21                  “(C) OUT-OF-RESIDENCE CARE.—If a tax-  
22          payer becomes physically or mentally impaired  
23          while owning and using property as a principal  
24          residence, then the taxpayer shall be treated as  
25          meeting the ownership and use requirements of

1 paragraph (1) during any period the taxpayer  
 2 owns the property and resides in any facility  
 3 (including a nursing home) licensed by a State  
 4 or political subdivision to care for an individual  
 5 in the taxpayer's condition.

6 **“SEC. 60B. CREDITS AGAINST TAX.**

7 “No credit shall be allowed against the tax imposed  
 8 by this part other than—

9 “(1) the credit allowable under section 24 (re-  
 10 lating to child tax credit),

11 “(2) the credit allowable under section 32 (re-  
 12 lating to earned income credit), and

13 “(3) the credit for overpayment of tax under  
 14 section 6402.

15 **“SEC. 60C. ELECTION.**

16 “(a) ELECTION.—An eligible taxpayer may elect to  
 17 have this part apply for any taxable year.

18 “(b) ELIGIBLE TAXPAYER.—

19 “(1) IN GENERAL.—For purposes of this part,  
 20 the term ‘eligible taxpayer’ means, with respect to  
 21 any taxable year, a taxpayer who receives—

22 “(A) applicable wage income in an amount  
 23 not in excess of—

24 “(i) \$100,000, in the case of a tax-  
 25 payer described in section 1(a), and

1 “(ii) 50 percent of the amount in ef-  
 2 fect under clause (i) for the taxable year,  
 3 in the case of any other taxpayer, and

4 “(B) gross income (determined without re-  
 5 gard to applicable wage income) in an amount  
 6 not in excess of—

7 “(i) \$5,000, in the case of a taxpayer  
 8 described in section 1(a), and

9 “(ii) 50 percent of the amount in ef-  
 10 fect under clause (i) for the taxable year,  
 11 in the case of any other taxpayer.

12 “(2) EXCLUSIONS.—The term ‘eligible tax-  
 13 payer’ shall not include—

14 “(A) a married individual unless the indi-  
 15 vidual and the spouse both have the same tax-  
 16 able year and both make the election,

17 “(B) a nonresident alien individual, or

18 “(C) an estate or trust.

19 “(3) INFLATION ADJUSTMENTS.—In the case of  
 20 a taxable year beginning after 2001, each dollar  
 21 amount under paragraph (1) shall be increased by  
 22 an amount equal to—

23 “(A) such dollar amount, multiplied by

24 “(B) the cost-of-living adjustment deter-  
 25 mined under section 1(f)(3) for the calendar

1           year in which the taxable year begins, deter-  
 2           mined by substituting ‘calendar year 2000’ for  
 3           ‘calendar year 1992’ in subparagraph (B)  
 4           thereof.

5           “(b) FORM OF ELECTION.—

6           “(1) IN GENERAL.—An individual shall make  
 7           an election to have this part apply for any taxable  
 8           year by furnishing an election certificate to such in-  
 9           dividual’s employer not later than the close of the  
 10          first payroll period after the individual commences  
 11          work for such employer or January 1 of the taxable  
 12          year to which such election relates, whichever is  
 13          later.

14          “(2) CONTENTS OF CERTIFICATE.—The elec-  
 15          tion certificate furnished under paragraph (1)  
 16          shall—

17                 “(A) contain such information as the Sec-  
 18                 retary requires to enable the Secretary to carry  
 19                 out this part and enable the employer to with-  
 20                 hold the appropriate amount of wages under  
 21                 section 3402, and

22                 “(B) contain a certification by the em-  
 23                 ployee under penalty of perjury that the infor-  
 24                 mation furnished is correct.

1           “(3) AMENDMENT OF CERTIFICATE.—A new  
 2           election certificate shall be filed within 30 days after  
 3           the date of any change in the information required  
 4           under paragraph (2).

5           “(4) ELECTION CERTIFICATE.—For purposes of  
 6           this section, the term ‘election certificate’ means the  
 7           withholding exemption certificate used for purposes  
 8           of chapter 24.

9           “(5) ADVANCE PAYMENT OF EARNED INCOME  
 10          AMOUNT.—The Secretary shall prescribe such regu-  
 11          lations as may be necessary to allow an eligible tax-  
 12          payer to treat an election certificate furnished under  
 13          this section as including an earned income eligibility  
 14          certificate under section 3507 in the case of an eligi-  
 15          ble individual claiming the earned income credit  
 16          under section 32.

17          “(c) PERIOD ELECTION IN EFFECT.—

18                 “(1) IN GENERAL.—Except as provided in para-  
 19                 graph (2), an election under this section shall be ef-  
 20                 fective for the taxable year for which it is made and  
 21                 all subsequent taxable years.

22                 “(2) TERMINATION.—An election under this  
 23                 part shall terminate with respect to an individual for  
 24                 any taxable year and all subsequent taxable years if

1 at any time during such taxable year such  
2 individual—

3 “(A) is no longer an eligible taxpayer,

4 “(B) elects to terminate such individual’s  
5 election, or

6 “(C) commits fraud with respect to any in-  
7 formation required to be provided under this  
8 section.

9 “(d) **SAFE HARBOR FOR INELIGIBILITY.**—In the case  
10 of an individual who has a termination under subsection  
11 (c)(2)(A), no addition to tax under section 6654 shall  
12 apply to any underpayment attributable to eligible wage  
13 income of such individual for such taxable year if such  
14 underpayment was not due to fraud, negligence, or dis-  
15 regard of rules or regulations (within the meaning of sec-  
16 tion 6662).

17 “(e) **MARITAL STATUS.**—For purposes of this part,  
18 marital status shall be determined under section 7703.

19 **“SEC. 60D. LIABILITY FOR TAX.**

20 “(a) **AMOUNT WITHHELD TREATED AS SATISFAC-**  
21 **TION OF LIABILITY.**—Except as provided in this section,  
22 any amount withheld as tax under section 3402(t) for an  
23 eligible individual with an election in effect under section  
24 60C for the taxable year shall be treated as complete satis-

1   faction of liability for the tax imposed by section 60(a)  
2   for such taxable year.

3       “(b)   EXCEPTIONS.—Notwithstanding   subsection  
4   (a)—

5           “(1) OVERPAYMENT.—If the amount withheld  
6       as tax under section 3402(t) for an eligible taxpayer  
7       with an election in effect under section 60C for the  
8       taxable year exceeds the tax imposed under section  
9       60(a) for the taxable year, the excess amount shall  
10      be treated as an overpayment for purposes of section  
11      6402.

12          “(2) UNDERPAYMENT.—

13               “(A) IN GENERAL.—If the Secretary deter-  
14       mines that the amount withheld as tax under  
15       section 3402(t) for an eligible taxpayer is less  
16       than the tax imposed under section 60(a) and  
17       such underpayment is not due to fraud, the  
18       Secretary may assess and collect such under-  
19       payment in the same manner as if such under-  
20       payment were on account of a mathematical or  
21       clerical error appearing on a return of the indi-  
22       vidual for the taxable year.

23               “(B) DE MINIMIS EXCEPTION.—If the  
24       amount by which the tax imposed by section  
25       60(a) exceeds the amount withheld as tax under

1           section 3402(t) by less than the lesser of \$100  
2           or 10 percent of the tax so imposed, the tax-  
3           payer shall be treated as having no under-  
4           payment.

5           “(c) REGULATIONS.—The Secretary shall prescribe  
6 such regulations as may be necessary to carry out the pro-  
7 visions of this section, including regulations—

8           “(1) to allow a refund of an overpayment under  
9           subsection (b)(1) to a taxpayer without requiring ad-  
10          ditional filing of information by the taxpayer, and

11          “(2) to notify taxpayers of eligibility for credits  
12          allowable under section 60B and allow a claim and  
13          refund of any credit not claimed by an eligible tax-  
14          payer during the taxable year.”.

15          (b) WITHHOLDING FROM WAGES.—Section 3402 (re-  
16 lating to income tax collected at source) is amended by  
17 adding at the end the following new subsection:

18          “(t) WITHHOLDING UNDER THE FAIR AND SIMPLE  
19 SHORTCUT TAX PLAN.—

20          “(1) IN GENERAL.—An employer making pay-  
21          ment of wages to an individual with an election in  
22          effect under section 60C shall deduct and withhold  
23          upon such wages a tax (in lieu of the tax required  
24          to be deducted and withheld under subsection (a))

determined in accordance with tables prescribed by the Secretary in accordance with paragraph (2).

“(2) WITHHOLDING TABLES.—The Secretary shall prescribe 1 or more tables which set forth amounts of wages and income tax to be deducted and withheld based on information furnished to the employer in the employee’s election form and to ensure that the aggregate amount withheld from such employee’s wages approximates the tax liability of such individual for the taxable year. Any tables prescribed under this paragraph shall—

“(A) apply with respect to the amount of wages paid during such periods as the Secretary may prescribe, and

“(B) be in such form, and provide for such amounts to be deducted and withheld, as the Secretary determines to be most appropriate to carry out the purposes of this chapter and to reflect the provisions of chapter 1 applicable to such periods, including taking into account any credits allowable under section 24 or 32.

The Secretary shall provide that any other provision of this section shall not apply to the extent such provision is inconsistent with the provisions of this subsection.

1 “(2) ELECTION CERTIFICATE.—

2 “(A) IN GENERAL.—In lieu of a with-  
3 holding exemption certificate, an employee shall  
4 furnish the employer with a signed election cer-  
5 tificate and any amended election certificate at  
6 such time and containing such information as  
7 required under section 60C.

8 “(B) WHEN CERTIFICATE TAKES EF-  
9 FECT.—

10 “(i) FIRST CERTIFICATE FUR-  
11 NISHED.—An election certificate furnished  
12 to an employer in cases in which no pre-  
13 vious such certificate is in effect shall take  
14 effect as of the beginning of the first pay-  
15 roll period ending, or the first payment of  
16 wages made without regard to a payroll pe-  
17 riod, on or after the date on which such  
18 certificate is so furnished.

19 “(ii) REPLACEMENT CERTIFICATE.—  
20 An election certificate furnished to an em-  
21 ployer which replaces an earlier certificate  
22 shall take effect as of the beginning of the  
23 1st payroll period ending (or the 1st pay-  
24 ment of wages made without regard to a  
25 payroll period) on or after the 30th day

1 after the on which the replacement certifi-  
 2 cate is so furnished.”.

3 (c) WAIVER OF REQUIREMENT TO FILE RETURN OF  
 4 INCOME.—Subsection (a)(1)(A) of section 6012 (relating  
 5 to persons required to make return of income) is amended  
 6 by striking “or” at the end of clause (iii), by striking the  
 7 period at the end of clause (iv) and inserting “, or”, and  
 8 by inserting after clause (iv) the following new clause:

9 “(v) who is an eligible taxpayer with  
 10 an election in effect for the taxable year  
 11 under section 60C.”

12 (d) TECHNICAL AND CONFORMING AMENDMENTS.—

13 (1) The table of parts for subchapter A of chap-  
 14 ter 1 is amended by adding at the end the following  
 15 new item:

“Part VIII. Fair and Simple Shortcut Tax Plan.”

16 (2) Section 6654(a) is amended by inserting  
 17 “and section 60C(d)” after “this section”.

18 (e) EFFECTIVE DATE.—The amendments made by  
 19 this section shall apply to taxable years beginning after  
 20 December 31, 2000.

21 **SEC. 102. TAX CREDIT FOR EMPLOYER FASST PLAN START-**  
 22 **UP COSTS.**

23 (a) IN GENERAL.—Subpart D of part IV of sub-  
 24 chapter A of chapter 1 (relating to business related cred-

1 its) is amended by adding at the end the following new  
 2 section:

3 **“SEC. 45D. FASST PLAN EMPLOYER START-UP CREDIT.**

4 “(a) CREDIT ALLOWED.—

5 “(1) IN GENERAL.—For purposes of section 38,  
 6 the Fair and Simple Shortcut Tax plan start-up  
 7 credit determined under this section for the taxable  
 8 year is an amount equal to the lesser of—

9 “(A) 50 percent of eligible start-up costs of  
 10 the taxpayer for the taxable year, or

11 “(B) \$1,000.

12 “(2) MAXIMUM CREDIT.—The maximum credit  
 13 allowed with respect to a taxpayer under this sub-  
 14 section for all taxable years shall not exceed the  
 15 amount determined under paragraph (1) for all tax-  
 16 able years.

17 “(b) ELIGIBLE START-UP COSTS.—For purposes of  
 18 this section, the term ‘eligible start-up costs’ means  
 19 amounts paid or incurred by an employer (or any prede-  
 20 cessor) during the 1 year period beginning on the date  
 21 on which the employer first employs 1 or more employees  
 22 with an election in effect under section 60C for the taxable  
 23 year, in connection with carrying out the withholding re-  
 24 quirements of section 3402.

1       “(c) CREDIT AVAILABLE FOR EACH WORKSITE.—If  
 2 a taxpayer maintains a separate worksite for employees,  
 3 such person shall be treated as a single employer with re-  
 4 spect to such worksite for purposes of the credit allowable  
 5 under subsection (a).”

6       (b) CONFORMING AMENDMENTS.—

7           (1) Section 38(b) is amended—

8               (A) by striking “plus” at the end of para-  
 9 graph (11),

10              (B) by striking the period at the end of  
 11 paragraph (12), and inserting a comma and  
 12 “plus”, and

13              (C) by adding at the end the following new  
 14 paragraph:

15           “(13) the Fair and Simple Shortcut Tax plan  
 16 start-up credit determined under section 45D.”

17           (2) The table of sections for subpart D of part  
 18 IV of subchapter A of chapter 1 is amended by add-  
 19 ing at the end the following new item:

“Sec. 45D. Fair and Simple Shortcut Tax plan start-up credit.”

20       (c) EFFECTIVE DATE.—The amendments made by  
 21 this section shall apply to taxable years beginning after  
 22 December 31, 2000.

**TITLE II—PROVISIONS TO  
SIMPLIFY THE TAX CODE**

**SEC. 201. REDUCTION IN MARRIAGE PENALTY IN STAND-  
ARD DEDUCTION.**

(a) IN GENERAL.—Section 63(c)(2) (relating to basic standard deduction) is amended to read as follows:

“(2) BASIC STANDARD DEDUCTION.—For purposes of paragraph (1), the basic standard deduction is—

“(A) 200 percent of the amount under subparagraph (C) for the taxable year, in the case of a joint return or a surviving spouse (as defined in section 2(a)),

“(B) 150 percent of such amount, in the case of a head of household (as defined in section 2(b)), and

“(C) \$3,000, in the case of an individual who is not married and who is not a surviving spouse or head of household or a married individual filing a separate return.”

(b) EFFECTIVE DATE.—The amendment made by this section shall apply to taxable years beginning after December 31, 2000.

1 **SEC. 202. ALTERNATIVE MINIMUM TAX EXCLUSION OF**  
 2 **SELF-EMPLOYMENT INCOME AND CERTAIN**  
 3 **ITEMS OF PREFERENCE AND ADJUSTMENTS.**

4 (a) INCREASED EXEMPTION FOR SELF-EMPLOY-  
 5 MENT INCOME.—Section 55(d)(1) (relating to exemption  
 6 amount for taxpayers other than corporations) is amended  
 7 to read as follows:

8 “(1) EXEMPTION AMOUNT FOR TAXPAYERS  
 9 OTHER THAN CORPORATIONS.—In the case of a tax-  
 10 payer other than a corporation, the term ‘exemption  
 11 amount’ means the sum of—

12 “(A) an amount equal to—

13 “(i) \$45,000 in the case of—

14 “(I) a joint return, or

15 “(II) a surviving spouse,

16 “(ii) \$33,750 in the case of an indi-  
 17 vidual who—

18 “(I) is not a married individual,

19 or

20 “(II) is not a surviving spouse,

21 and

22 “(iii) \$22,500 in the case of—

23 “(I) a married individual who  
 24 files a separate return, or

25 “(II) an estate or trust, and

26 “(B) an amount equal to the lesser of—

1 “(i) the self employment income (as  
 2 defined in section 1402(b)) of the taxpayer  
 3 for the taxable year, or

4 “(ii) \$1,000,000.

5 For purposes of this paragraph, the term ‘surviving  
 6 spouse’ has the meaning given to such term by sec-  
 7 tion 2(a), and marital status shall be determined  
 8 under section 7703.’’.

9 (b) EXCLUSION OF CERTAIN ITEMS OF PREFERENCE  
 10 AND ADJUSTMENTS.—Section 55 (relating to alternative  
 11 minimum tax imposed) is amended by adding at the end  
 12 the following new subsection:

13 “(f) SPECIAL RULE FOR SMALL BUSINESSES.—

14 “(1) IN GENERAL.—For purposes of this part,  
 15 in computing the alternative minimum taxable in-  
 16 come of a taxpayer to which this subsection applies  
 17 for any taxable year—

18 “(A) no adjustments provided in section 56  
 19 which are attributable to a trade or business of  
 20 the taxpayer shall be made, and

21 “(B) taxable income shall not be increased  
 22 by any item of tax preference described in sec-  
 23 tion 57 which is so attributable.

24 “(2) APPLICATION.—

1           “(A) IN GENERAL.—This subsection shall  
 2           apply to a taxpayer for a taxable year if the  
 3           taxpayer is not a corporation and the gross re-  
 4           ceipts of the taxpayer for the taxable year from  
 5           all trades or businesses do not exceed  
 6           \$1,000,000.

7           “(B) SPECIAL RULES.—Rules similar to  
 8           the rules of paragraphs (2), (3)(B), and (3)(C)  
 9           of section 448(c) shall apply for purposes of  
 10          this subsection.”.

11          (c) CONFORMING AMENDMENTS.—Section 55(d)(3)  
 12          is amended—

13               (1) by striking “paragraph (1)(A)” and insert-  
 14               ing “paragraph (1)(A)(i)” in subparagraph (A),

15               (2) by striking “paragraph (1)(B)” and insert-  
 16               ing “paragraph (1)(A)(ii)” in subparagraph (B),

17               (3) by striking “paragraph (1)(C)” and insert-  
 18               ing “paragraph (1)(A)(iii)” in subparagraph (C),  
 19               and

20               (4) by striking “paragraph (1)(C)(i)” and in-  
 21               serting “paragraph (1)(A)(iii)(I)” in the second sen-  
 22               tence.

23          (d) EFFECTIVE DATE.—The amendments made by  
 24          this section shall apply to taxable years beginning after  
 25          December 31, 2000.

1 **SEC. 203. NONREFUNDABLE TAX CREDIT FOR TAX PREPA-**  
2 **RATION EXPENSES.**

3 (a) IN GENERAL.—Subpart A of part IV of sub-  
4 chapter A of chapter 1 (relating to nonrefundable personal  
5 credits) is amended by adding at the end the following  
6 new section:

7 **“SEC. 25B. TAX PREPARATION EXPENSES.**

8 “(a) ALLOWANCE OF CREDIT.—In the case of an in-  
9 dividual, there shall be allowed as a credit against the tax  
10 imposed by this chapter for the taxable year an amount  
11 equal to the lesser of—

12 “(1) 50 percent of the qualified tax preparation  
13 expenses of the taxpayer for the taxable year, or

14 “(2) \$100.

15 “(b) QUALIFIED TAX PREPARATION EXPENSES.—  
16 For purposes of this section, the term ‘qualified tax prepa-  
17 ration expenses’ means expenses paid or incurred during  
18 the taxable year by an individual in connection with the  
19 preparation of the taxpayer’s Federal income tax return  
20 for such taxable year, but only if such return is electroni-  
21 cally filed. Such term shall include any expenses related  
22 to an income tax return preparer.

23 “(c) DENIAL OF DEDUCTION.—No deduction shall be  
24 allowed under this chapter for any amount taken into ac-  
25 count in determining the credit under this section.”.

1 (b) CONFORMING AMENDMENT.—The table of sec-  
 2 tions for subpart A of part IV of subchapter A of chapter  
 3 1 is amended by adding at the end the following new item:

“Sec. 25B. Tax preparation expenses.”

4 (c) EFFECTIVE DATE.—The amendments made by  
 5 this section shall apply to expenses paid or incurred for  
 6 taxable years beginning after December 31, 2000.

7 **SEC. 204. EXEMPTION OF CERTAIN INTEREST AND DIVI-**  
 8 **DEND INCOME FROM TAX.**

9 (a) IN GENERAL.—Part III of subchapter B of chap-  
 10 ter 1 (relating to amounts specifically excluded from gross  
 11 income) is amended by inserting after section 115 the fol-  
 12 lowing new section:

13 **“SEC. 116. PARTIAL EXCLUSION OF DIVIDENDS AND INTER-**  
 14 **EST RECEIVED BY INDIVIDUALS.**

15 “(a) EXCLUSION FROM GROSS INCOME.—In the case  
 16 of an individual who does not have an election in effect  
 17 under section 60C for the taxable year, gross income does  
 18 not include dividends and interest otherwise includible in  
 19 gross income which are received during the taxable year  
 20 by such individual.

21 “(b) LIMITATIONS.—

22 “(1) MAXIMUM AMOUNT.—The aggregate  
 23 amount excluded under subsection (a) for any tax-  
 24 able year shall not exceed \$500 (\$1,000 in the case  
 25 of a joint return).

1           “(2) CERTAIN DIVIDENDS EXCLUDED.—Sub-  
 2           section (a) shall not apply to any dividend from a  
 3           corporation which for the taxable year of the cor-  
 4           poration in which the distribution is made is a cor-  
 5           poration exempt from tax under section 521 (relat-  
 6           ing to farmers’ cooperative associations).

7           “(c) SPECIAL RULES.—For purposes of this  
 8           section—

9           “(1) EXCLUSION NOT TO APPLY TO CAPITAL  
 10          GAIN DIVIDENDS FROM REGULATED INVESTMENT  
 11          COMPANIES AND REAL ESTATE INVESTMENT  
 12          TRUSTS.—

**“For treatment of capital gain dividends, see sec-  
 tions 854(a) and 857(c).”**

13          “(2) CERTAIN NONRESIDENT ALIENS INELI-  
 14          GIBLE FOR EXCLUSION.—In the case of a non-  
 15          resident alien individual, subsection (a) shall apply  
 16          only in determining the taxes imposed for the tax-  
 17          able year pursuant to sections 871(b)(1) and 877(b).

18          “(3) DIVIDENDS FROM EMPLOYEE STOCK OWN-  
 19          ERSHIP PLANS.—Subsection (a) shall not apply to  
 20          any dividend described in section 404(k).”.

21          (b) CONFORMING AMENDMENTS.—

22                 (1) Subparagraph (C) of section 32(c)(5) is  
 23                 amended by striking “or” at the end of clause (i),  
 24                 by striking the period at the end of clause (ii) and

1 inserting “; or”, and by inserting after clause (ii)  
2 the following new clause:

3 “(iii) interest and dividends received  
4 during the taxable year which are excluded  
5 from gross income under section 116.”.

6 (2) Subparagraph (A) of section 32(i)(2) is  
7 amended by inserting “(determined without regard  
8 to section 116)” before the comma.

9 (3) Subparagraph (B) of section 86(b)(2) is  
10 amended to read as follows:

11 “(B) increased by the sum of—

12 “(i) the amount of interest received or  
13 accrued by the taxpayer during the taxable  
14 year which is exempt from tax, and

15 “(ii) the amount of interest and divi-  
16 dends received during the taxable year  
17 which are excluded from gross income  
18 under section 116.”.

19 (4) Subsection (d) of section 135 is amended by  
20 redesignating paragraph (4) as paragraph (5) and  
21 by inserting after paragraph (3) the following new  
22 paragraph:

23 “(4) COORDINATION WITH SECTION 116.—This  
24 section shall be applied before section 116.”.

1           (5) Paragraph (2) of section 265(a) is amended  
2       by inserting before the period “, or to purchase or  
3       carry obligations or shares, or to make deposits, to  
4       the extent the interest thereon is excludable from  
5       gross income under section 116”.

6           (6) Subsection (c) of section 584 is amended by  
7       adding at the end the following new flush sentence:  
8       “The proportionate share of each participant in the  
9       amount of dividends or interest received by the common  
10      trust fund and to which section 116 applies shall be con-  
11      sidered for purposes of such section as having been re-  
12      ceived by such participant.”.

13          (7) Subsection (a) of section 643 is amended by  
14      redesignating paragraph (7) as paragraph (8) and  
15      by inserting after paragraph (6) the following new  
16      paragraph:

17          “(7) DIVIDENDS OR INTEREST.—There shall be  
18      included the amount of any dividends or interest ex-  
19      cluded from gross income pursuant to section 116.”.

20          (8) Section 854(a) is amended by inserting  
21      “section 116 (relating to partial exclusion of divi-  
22      dends and interest received by individuals) and”  
23      after “For purposes of”.

24          (9) Section 857(c) is amended to read as fol-  
25      lows:

1       “(c) RESTRICTIONS APPLICABLE TO DIVIDENDS RE-  
2 CEIVED FROM REAL ESTATE INVESTMENT TRUSTS.—

3               “(1) TREATMENT FOR SECTION 116.—For pur-  
4 poses of section 116 (relating to partial exclusion of  
5 dividends and interest received by individuals), a  
6 capital gain dividend (as defined in subsection  
7 (b)(3)(C)) received from a real estate investment  
8 trust which meets the requirements of this part shall  
9 not be considered as a dividend.

10              “(2) TREATMENT FOR SECTION 243.—For pur-  
11 poses of section 243 (relating to deductions for divi-  
12 dends received by corporations), a dividend received  
13 from a real estate investment trust which meets the  
14 requirements of this part shall not be considered as  
15 a dividend.”.

16              (10) The table of sections for part III of sub-  
17 chapter B of chapter 1 is amended by inserting after  
18 the item relating to section 115 the following new  
19 item:

“Sec. 116. Partial exclusion of dividends and interest received by  
individuals.”.

20              (c) EFFECTIVE DATE.—The amendments made by  
21 this section shall apply to taxable years beginning after  
22 December 31, 2000.

○